LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7904
BILL NUMBER: HB 1550

DATE PREPARED: Jan 9, 2001
BILL AMENDED:

SUBJECT: County Welfare Finance; State Expenditures.

FISCAL ANALYST: Bob Sigalow
PHONE NUMBER: 232-9859

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: *State Spending Limit*: This bill limits increases in state expenditures to an amount based on the increase in inflation and population. It allows the General Assembly to authorize additional spending through adoption of a concurrent resolution. The bill establishes the Excess Tax Fund to receive certain state revenues that exceed the spending limit and provides that the fund is to be used to provide property tax relief programs enacted by the General Assembly.

Family and Children: This bill eliminates the authority of a county to impose a property tax levy for the county Family and Children's Fund, beginning in 2004. It transfers responsibility for funding children's services from the county Family and Children's Funds to the state. The bill eliminates the authority of a county to borrow for welfare purposes. It also provides that, beginning in 2000, the Auditor of State shall annually transfer $50 M from the Lottery and Gaming Surplus Account to the state Welfare Replacement Fund for purposes of funding children's services. The bill provides that any additional necessary funding is appropriated from the state General Fund and it makes certain conforming amendments.

Effective Date: Upon passage; July 1, 2001; July 1, 2003; January 1, 2004.

Explanation of State Expenditures: *Expenditure Limits:* This bill establishes a maximum annual percentage change for state government expenditures to be based on the sum of the percentage change in inflation (defined as the Consumer Price Index- CPI) and population plus 1%. If revenues exceed the expenditure limit, the excess shall be deposited in the Excess Tax Fund. The General Assembly may authorize spending that exceeds the expenditure limit if a concurrent resolution is adopted by a majority of the members of both the House and Senate.

The Excess Tax Fund is established to provide property tax relief under programs enacted by the General Assembly. The Fund is to be administered by the Treasurer of State. The Treasurer shall invest money in the Fund not currently needed to meet the obligations in the same manner as other public money. Interest that accrues shall be deposited in the Fund. Money in the Fund at the end of the fiscal year does not revert to the General Fund.

This bill applies to appropriations beginning in FY 2004. According to the June 30, 2000, Surplus Statement, FY 2001 budgeted appropriations are $10,052.3 M. The average annual change in CPI for the last five calendar years has been 2.4%. The average annual change in population has been less than 1%. Depending on the level of inflation and change in population, future expenditure increases could be restricted to approximately 4% or 5%. The December 19, 2000, Revenue Forecast also projects a 5.4% increase in General Fund and Property Tax Replacement Fund revenue from FY 2002 to FY 2003. There is no official forecast of revenue collections for FY 2004 and beyond.

The impact on state spending and the amount of revenue which would be available for refund is subject to legislative, executive, and judicial actions.

Background Information: The average annual change in the CPI and population for the last five years, as well as the minimal limits set out in this bill are identified below.

CY May - April Index	% Change CPI	% Change in Pop	Max % (includes +1%)
CY 95 - 96	2.78%	.7%	4.48%
CY 96 - 97	2.93%	.6%	4.53%
CY 97 - 98	1.89%	.6%	3.49%
CY 98 - 99	1.67%	.6%	3.27%
CY 99 - 2000	2.63%	NA	NA

Family and Children: This bill eliminates the county funding of family and children's services. Beginning in CY 2004, the state would be responsible for the current gross county expenditures for family and children's services which are estimated at $152.8 M for FY 2004 (first half of CY 2004) and $313.0 M for FY 2005. Child welfare expenditures experienced an average annual increase of about 20% between 1987 and 1995. The projections, above, are based on estimated continued growth in child welfare expenditures of about 5% per year reflecting the lower annual increases of the last few years.

The State already contributes to this expenditure in the form of Property Tax Replacement Credit (PTRC) and Homestead Credit. Because of the elimination of the gross property tax levies under this proposal, the state payment for PTRC and Homestead Credit would be reduced by about $26.6 M for FY 2004 and $54.6 M for FY 2005.

The resulting net additional state expenditures (additional expenditures less PTRC and Homestead Credit) are estimated at $126.2 M for FY 2004 and $258.4 M for FY 2005. **The total net cost to the state (Net expenditures less additional revenues as explained below) is estimated at $113.5 M for FY 2004 and $232.8 M for FY 2005.**

The State Welfare Replacement Fund (SWRF) is established for the purposes of paying the costs of children's services. The bill transfers $50 M annually from the Lottery and Gaming Surplus Account into this fund beginning in FY 2002. The Treasurer shall invest the money in the Fund and money in the Fund does not revert to the State General Fund at the end of the state fiscal year**.** Amounts necessary to make the transfers are appropriated from the SWRF and, as needed, from the State General Fund. Based on projected transfers for FY 2002 through FY 2004 there would be $150 M plus interest in the SWRF for the estimated $113.5 M in net additional state expenditures for family and children's services in FY 2004.

Background: Under current statute, surplus Lottery revenue is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, surplus Lottery revenue is then distributed to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund.

The LGSA also receives surplus gaming revenues (revenues from the Riverboat Wagering Tax, the Parimutuel Wagering Tax, and the Charity Gaming Excise Tax). A statutorily determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. (Beginning with FY 2002 and continuing each year thereafter this amount is equal to approximately $236.2 M.) The remaining money in the LGSA is then transferred to the State and Local Capital Projects Account (SLCPA). The table below outlines the actual and estimated Lottery and gaming revenue for FY 2000 to FY 2003, along with the required statutory distributions.

Surplus Lottery and Gaming Revenue & Distributions (Millions)

Revenues & Distributions	FY 2000 (Actual)	FY 2001 (Projected)	FY 2002 (Projected)	FY 2003 (Projected)
Surplus Lottery Revenue	$173.3	$167.0	$167.0	$167.0
TRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
PRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
Surplus Lottery Revenue to the LGSA	$113.3	$107.0	$107.0	$107.0
Surplus Gaming Revenue to the LGSA	$252.5	$256.6	$256.6	$256.6
Interest	$18.1	$14.0	$14.0	$14.0
Total Revenue to LGSA	383.9	377.6	377.6	377.6
MVETRA Transfer	($219.8)	($234.7)	($236.2)	($236.2)
SLCPA Transfer	($164.1)	($142.9)	($141.4)	($141.4)

The balance of the BIF as of June 30, 2000, was $342.1 M.

The bill also requires each juvenile court judge to annually compile and submit a budget for children served by the probation department. The county welfare director's child services budget must include the judge's budget. The bill further prohibits the total of all approved child services budgets from exceeding the amount appropriated for that purpose. If these budgeting techniques cause spending to be curtailed then the above cost estimates would be reduced.

The bill also contains a provision that requires the state to reimburse each county for the proportionate share of operating costs of the county auditor's and treasurer's offices for support of the Family and Children's Fund. This expense would be in addition to the cost estimate provided above.

Explanation of State Revenues: *Family and Children*: The state would receive the Financial Institutions Tax (FIT) and Motor Vehicle Excise Tax monies that were apportioned to the counties' Family and Children Funds. The estimated total revenue that would be transferred to the state General Fund is about $25.4 M for CY 2004 and $25.9 M for CY 2005. On a fiscal year basis, this would amount to approximately $12.7 M in FY 2004 and $25.6 M in FY 2005.

Explanation of Local Expenditures: *Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

Family and Children: The counties would experience reduced expenditures for family and children's services at an estimated $305.7 M for CY 2004 and $320.2 M for CY 2005.

Explanation of Local Revenues: *Family and Children*: **The counties will experience reduced net levies of an estimated $227.1 M for CY 2004 and $238.4 M for CY 2005.**

The reduced net levies, above, are equal to the reduced gross levies less the amount paid by the state for PTRC and Homestead Credits. The gross levies are estimated to be $280.4 M for CY 2004 and $294.3 M for CY 2005. PTRC and Homestead Credit payments are estimated to be $53.2 M for CY 2004 and $55.9 M for CY 2005.

In addition to the elimination of the Family and Children Funds and the shift in responsibility to pay for these services, the FIT and Motor Vehicle Excise Tax monies that were apportioned to the funds would flow to the state General Fund under this proposal. The estimated total revenue that would be transferred to the state General Fund is about $25.4 M for CY 2004 and $25.9 M for CY 2005.

Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the taxing district's tax rate. As a consequence of eliminating the County Family and Children's Fund levies and tax rates, TIF proceeds would be reduced. If these tax rates had been eliminated in CY 2000, TIF districts, statewide, would have lost about $4.7 M in revenue. However, this bill permits the TIF district's governing body to impose a special assessment on the property in the TIF area in order to meet the district's obligations.

State Agencies Affected: Family and Social Services Administration; State Budget Agency; General Assembly; Treasurer of State.

Local Agencies Affected: Counties.

Information Sources: Family and Social Services Administration; Local Government Database; GF & PTRF Statement of Combined Estimated Unappropriated Reserve, June 30, 2000 - State Budget Agency; December 19, 2000 State Revenue Forecast- Revenue Forecast Technical Committee; Dan Bastin, Auditor of State's Office (232-3300); U.S. Census Bureau; Bureau of Labor Statistics.